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TAGS: [EFIN](#) [ECON](#) [RS](#)
SUBJECT: RUSSIAN STOCK EXCHANGES STILL DOWN AFTER STORM

[1](#)1. This message is sensitive but unclassified, and not for internet distribution.

[1](#)2. (SBU) The apparent sharp increase in emerging market risk aversion that sent Shanghai's stock market tumbling on February 27 was also manifest among Russian equity markets. The benchmark dollar-denominated RTS Index fell 3.28 percent, and the broader, ruble-denominated MICEX Index was down 4.1 percent. Trading volumes were 63 percent higher than the 4-week average.

[1](#)3. (SBU) Just before the end of trading on February 28, the major indices repeated the same general magnitude of the previous day's slide, with the RTS down 3.5 percent and MICEX down 3.8 percent. Many of our market analyst contacts have called the share-price drop a "spring bull-market correction." United Financial Group Chief Economist Yaroslav Lissovlik noted that the underlying fundamentals are generally sound and, in some cases, improving. He said that steel producers, for example, have garnered stock recommendation upgrades among many investment houses as a result of their enhanced cost controls in recent months. He characterized the price drop for Novolipetsk Steel (-6.8 percent) and Severstal (-4 percent) as profit-taking. Troika Dialog Chief Economist Evgeny Gavrilencov echoed this assessment, equating the correction with the liquidity squeeze that caused a similar decline in Russian equities during May [1](#)2006.

Comment

[1](#)4. (SBU) Ongoing questions about the underlying quality of emerging market assets could translate into a short-term selloff of Russian stocks during the next two months. Retail investors in the country's growing mutual fund market may even lead the way down as they wait for the proverbial dust to settle. Many of the analysts we talked with, however, maintain a bullish outlook for Russian stocks in 2007.
BURNS